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TAGS: [MCAP](#) [MARR](#) [PREL](#) [MOPS](#) [NATO](#) [KPKO](#) [PINR](#) [UP](#)  
SUBJECT: UKRAINE: DEFENSE MINISTER YEKHANUROV PICKS UP THE  
CHALLENGE OF MILITARY REFORM

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Classified By: Ambassador for reasons 1.4(b,d)

[1](#)1. (C - REL NATO) Summary: New Defense Minister, and former Prime Minister, Yuriy Yekhanurov is an experienced bureaucratic insider with close ties to President Yushchenko who will be an ardent supporter of Ukraine's request for a NATO MAP and movement toward European standards and interoperability with NATO, even though he has no particular experience in the defense and national security arena. As he seeks to continue and fully implement the defense reforms put in place by his predecessor, Anatoliy Hrytsenko, he will have Yushchenko's unqualified support. However, he will also need to convince Prime Minister Yuliya Tymoshenko and the Cabinet of Ministers to approve increases in defense spending to fund the higher salaries and benefits needed to attract recruits to a contract military and to modernize the Ukrainian Armed Forces' (UAF) armaments and equipment in line with Ukraine's European and NATO aspirations. Hrytsenko did what he could under conditions of political turmoil and within the limits of MoD authority, but Yekhanurov's challenge will be to use his time in office to attract and maintain broad government support to advance the UAF further to the standards required to make genuine progress toward Euro-Atlantic integration.

[1](#)2. (C - REL NATO) Comment: Just as Hrytsenko was the right person at the right time to launch defense reform after the Orange Revolution, Yekhanurov could bring exactly the experience and background required to deepen and broaden the effort and move Ukraine's military decisively toward Europe. He is likely to rely on career civil servants to provide the expertise with regard to broader defense reform policy. However, his economic background orients him to focus personally on budgeting and procurement while his bureaucratic background will serve him well in policy and program management, areas where the Ministry of Defense must still make substantial progress. It is also expected that Yekhanurov will attempt to grapple with the Defense Ministry's huge portfolio of real estate and commercial holdings, and sell off some of the Ministry's non-military holdings. In fact, in a conversation with the Ambassador within days of his appointment, Yekhanurov concentrated his comments on exactly these areas. End summary/comment.

Yekhanurov's Qualifications  
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[1](#)3. (SBU) Yushchenko's nomination of Yekhanurov to be Defense

Minister was unexpected, since leaders within the pro-presidential Our Ukraine-People's Self Defense (OU-PSD) bloc and the public generally assumed Yushchenko would keep the well-regarded Hrytsenko in his job. Some media reports suggested that neither Hrytsenko nor Yekhanurov were aware of the President's decision until shortly before the announcement. In the aftermath, Hrytsenko confirmed on a television show that Yushchenko made the decision without consultation with him or with the OU-PSD leadership and that it had been a surprise to all. Most analysts assumed Yushchenko wanted Yekhanurov, who had initially opposed Yuliya Tymoshenko's selection as the orange coalition's prime minister, in the cabinet to help keep Tymoshenko in check. Despite the fuss, Yushchenko defended his choice of Yekhanurov, saying that he had not taken the decision against Hrytsenko but in order to have a fresh set of eyes look at the issue of defense reform.

14. (SBU) What is certain is Yekhanurov's personal loyalty to President Yushchenko. When Yushchenko was prime minister under former President Kuchma, Yekhanurov was his first deputy prime minister (from December 1999 to May 2001), while Tymoshenko was a deputy prime minister. Although Kuchma kept Yekhanurov on as first deputy head of the Presidential Administration when the Yushchenko cabinet was dismissed in May 2001, Yekhanurov left in November 2001 to become deputy chief of the election headquarters of Yushchenko's newly formed Our Ukraine opposition bloc. Yekhanurov was elected to parliament in March 2002 from Our Ukraine's list. Then, in the 2004 presidential race, Yekhanurov was deputy chief of Yushchenko's election headquarters. After Yushchenko dismissed Tymoshenko as prime minister, he plucked Yekhanurov from the position of Dnipropetrovsk governor to become prime minister in September 2005, a position Yekhanurov held until

August 2006 when Viktor Yanukovych returned to power at the head of a new coalition.

15. (U) Yekhanurov has a wealth of experience as a technocrat and economist, but he has no specific experience in the defense and national security arena, evidently not even military service in the Soviet Armed Forces. He was a deputy minister of economy from 1993-1994, acting chairman and chairman of the State Property Fund from 1994-1997, and minister of economy from February to July, 1997.

#### Yekhanurov's Team

16. (C - REL NATO) Thus far, Yekhanurov has generally preferred to bring in deputies whom he knows well rather than defense experts who might compensate for his own lack of experience. Although he asked Leonid Polyakov, Hrytsenko's first deputy defense minister, to stay on, Polyakov (who is close personally and professionally to Hrytsenko) demurred and resigned. Rumor has it, however, that Yekhanurov plans to replace Polyakov by moving up Deputy Defense Minister Valerii Ivashchenko, a career MoD civil servant who was also one of Hrytsenko's deputies, having been appointed in October 2007. The Amcit head of the NATO Liaison Office (NLO) in Ukraine welcomed the possibility in comments to us. As of this writing, another Hrytsenko hold-over, Mykola Neschadyn, was also continuing as another deputy defense minister.

17. (U) Nadiya Deevaya, Yekhanurov's first pick to a deputy defense minister position and the first woman in the senior MOD ranks, worked for Yekhanurov as Dnipropetrovsk deputy governor, then replaced him as governor in November 2005. Like Yekhanurov, Deevaya has a background primarily in finance and economics. Bogdan Butsa, appointed deputy defense minister on January 23, 2008, also has personal ties to Yekhanurov. Butsa was deputy chairman of the State Property Fund from 1995-1997 when Yekhanurov was chairman, and Minister of the Cabinet of Ministers from 2005-2006 when Yekhanurov was Prime Minister. Butsa could be a key interlocutor for us, since he is rumored to be taking over responsibility for munitions destruction and so will have responsibility for decisions affecting the implementation of

the U.S.-led NATO PfP Trust Fund destruction project.

¶8. (C - REL NATO) The NLO Chief argued to us that Yekhanurov's lack of specific defense experience could actually deepen the reforms that Hrytsenko had instituted. More than Hrytsenko, Yekhanurov would rely on key career MoD civil servants, like Planning and Policy Department Director Viktor Korendovych, to execute his programs. Korendovych and various colleagues in MOD and the military general staff understand the rationale and philosophy that formed the basis of defense reform. Continuity of effort at the office director level would ensure continued progress. Indeed, the MoD and General Staff's ability to successfully transition to the new, entirely civilian leadership demonstrated that a new approach and thinking was taking root and could not be reversed easily.

#### Yekhanurov's Programs

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¶9. (SBU) In a conversation with Ambassador within days of his appointment, Yekhanurov affirmed his intention to continue the reforms that Hrytsenko had initiated. He would not interfere with the work of the General Staff and would push the military to continue with reforms. Yekhanurov commented that, while he planned to bring in young deputy ministers, he was concerned about the MoD and the UAF's deep conservatism. In addition, however, he planned to concentrate early on the development of a professional military and the ending of conscription into the Armed Forces. The other main initial focus would be on the budget. President Yushchenko had criticized the Ministry of Defense on this score, justifiably according to Yekhanurov, since one third of the budget was dedicated to maintenance of structures that were not supporting MoD and UAF operations. The budget supported commercial enterprises and land assets, so budget reform and improvements in the budgeting process would be one of Yekhanurov's most important tasks. He was considering assigning budget issues specifically to a deputy minister. (Embassy note: The selling off of MOD assets is likely to involve huge sums of money and will bear watching to see

whether individuals or the state benefit from the proceeds.  
End Note.)

¶10. (SBU) In his first few days in the office, however, Yekhanurov was dismayed and frustrated by the MoD and General Staff's cumbersome procedures. The General Staff still does everything on paper, causing excessive work for the MoD staff and rendering Yekhanurov's personal laptop computer useless. Yekhanurov stressed his desire to streamline paperflow within the ministry. Yekhanurov also questioned the system of accounting used in the Armed Forces. Although his staff told him there was a shortage of 52,000 living quarters, all accounting was done at the unit level with no centralization of data. Yekhanurov suspected that reporting standards varied from unit to unit, making data suspect and with possibly only a tenuous relationship to actual reality.

¶11. (C - REL NATO) Comment: Yekhanurov's experience in various economic policy positions could very well have exposed him to a more progressive approach with which he could infect the Ministry of Defense and Ukrainian Armed Forces. In order to promote a culture of risk-taking and empowerment to lower levels, however, he will need time to structure and maintain the right system of rewards and opportunities to change deeply ingrained mindsets. He assured the Ambassador that he intended to remain in the Minister of Defense position for two years; he will need this time in office if he is to succeed in transforming the Ministry and the military. End comment.

#### Priority Task I: The All-Volunteer Force

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¶12. (SBU) Expanding on his primary goal of moving away from a conscript force, Yekhanurov told the Ambassador that, to do so, the incentives for military service had to improve,

beginning with housing. Yekhanurov had learned that a total of 52,000 personnel entitled to receive housing had not, including 12,500 retired service members and 8,000 who had been promised housing as a condition for being dismissed. Acting director of the military analytical think-tank Razumkov Center Mykola Sungurovsky emphasized the importance of military pay issues to us, listing it as one of three primary requirements to transition to a contract military along with improvements in housing conditions and training. Prime Minister Tymoshenko and the Cabinet had promised to raise military salaries to the \$600-\$800 range, and then increase it further to \$1,000, but current salaries were the same figures in hryvnia, about a fifth of the dollar amount. Center for Army, Conversion, and Defense Studies Director Valentyn Badrak said military recruiting would fail under present conditions since military pay was below average civilian pay in many areas where military units were located.

¶13. (U) The media later reported that Yekhanurov signed, on February 5, a plan covering 2008-2010, with a proposed budget of 49.6 billion hryvnia (just under U.S. \$10 billion) for the three years, aimed at completing the transition to a contract military. Yekhanurov told journalists that "we should realize that a contract military is costly." Media reports said expenditures would be 11 billion hryvnia in 2008, 18 billion in 2009, and 20.6 billion in 2010. Some 45.2 percent of the budgeted funds would go for salaries, 20.1 percent for procurement and maintenance of equipment, 13.2 percent for training, 12 percent on housing construction, and 8.4 percent guard services and upkeep of military bases. To implement the program, MoD was proposing a 2008 defense budget of 22.3 billion hryvnia, or 2.5 percent of GDP. The current budget proposal, however, incorporates only 9.9 billion hryvnia. Under the new program, in 2008, 1.9 billion hryvnia (almost U.S. \$400 million) would be allocated to build 8,000 units of officer housing, while average monthly pay for contract military would rise to 2,000 hryvnia per month (\$400). (Embassy note. The Government is planning to amend the 2008 budget in March so it is possible that the Defense Ministry will see an increase. End note.)

¶14. (SBU) Sungurovsky noted to us that lack of financing was the main obstacle holding back defense reform. Badrak agreed that the ideal budget figure would be the 22 billion hryvnia for 2008 in the MoD program, but argued that a politically realistic expectation would be 16 billion, or approximately 2 percent of GDP. Pessimistic observers, however, predicted that the current budget figures would be revised upward only

to 12 billion hryvnia. Badrak's Center had developed its own budget plan, with 15 billion hryvnia in 2008, 17.5 billion in 2009 and 19 billion in 2010. He asserted that such a trajectory would allow transition to a contract military by late 2010 or the beginning of 2011 without negatively affecting other MoD priorities such as equipment modernization. In comments to journalists, former Defense Minister Hrytsenko, now chairman of the Parliament's National Security and Defense Committee, essentially agreed with Badrak's assessment, saying MoD would get much less than its request and that two percent of GDP in 2008 and three percent in 2009 and 2010 were sufficient to transition to the contract military.

¶15. (C - REL NATO) Comment: While sharp improvements in pay and benefits are a necessary first step, a wide-ranging set of structural adjustments must also be made to make an all-volunteer force viable. For example, MoD must develop a marketing campaign and national network of recruiting offices. For the moment, contract military are drawn from conscripts who have opted for the more attractive conditions of service associated with the longer terms under contract. In addition, legislative changes are necessary to provide the foundation for a contract military. One obvious weakness is that the UAF currently cannot penalize volunteers who break their contracts and leave the military early. Yekhanurov asked the Ambassador for material on the U.S. experience in transitioning to an all-volunteer force, which we are providing. Nevertheless, MoD is not making sufficient

progress on the structural reforms necessary. The NLO Chief suggested that the MoD and UAF would not be ready by the 2010 target date actually to transition to a contract military, but that a delay would be politically unfeasible. He suggested that conscription would end, but UAF readiness would suffer a sharp drop during a transitional period. We agree with this assessment. End comment.

#### Priority Task II: Equipment Modernization

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¶16. (SBU) Political analysts with whom we spoke also highlighted the need to modernize the Ukrainian military's arms and equipment. Sungurovsky noted the UAF was surviving off its inheritance from the Soviet period, with the majority of military equipment bought before 1991 and long past their service lives. MoD and the Ministry of Industrial Policy had submitted several draft laws to improve the situation, including a law on military-technical cooperation providing for novel financing approaches, such as the use of offsets and another draft law to privatize some state-owned military industrial enterprises. Like defense reform efforts, however, military modernization was also being held back by financing problems.

¶17. (SBU) Badrak said his Center planned to hold a roundtable to consider options to replace the Ukrainian Air Force primary jet, the MiG-29. He noted that UAF claimed to be able to keep the MiG-29 in service until 2020, but argued that, in fact, it would probably need to develop a program for its replacement by 2011 and the MiG-29's operational service life could only be extended by another 6-7 years. He implied that the replacement program should include some joint production possibilities, noting that there were more than 50 Ukrainian factories capable of producing parts. In a February 1 Defense Express article, however, Badrak noted that there had been some positive movement on military modernization, with programs to upgrade the Mi-24 helicopter and the MiG-29 jet and development of a new corvette-class ship in the last half of 2007.

#### The Political Upsides and Downsides

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¶18. (SBU) Regardless of his professionalism and technocrat credentials, Yekhanurov is also a politician. Center for Peace, Conversion, and Foreign Policy Director Olexander Sushko characterized him as a "bureaucrat-politician." Yekhanurov told the Ambassador that Yushchenko expected him to exert a leadership role in the Cabinet of Ministers, and therefore, he had been involved in the process of selecting deputy ministers for a range of ministries besides Defense. It is unclear whether this political role might distract him from his responsibilities as Defense Minister. In addition, it runs the risk of alienating Prime Minister Tymoshenko,

with whom he has already crossed swords, leading to an earlier vow not to serve in the same government with her. So far, however, Tymoshenko has been cooperative and, indeed, anxious not to be viewed as causing Yekhanurov's failure.

¶19. (C - REL NATO) Yekhanurov is also more subject to Presidential direction than was Hrytsenko. He demonstrated this in his conversation with the Ambassador by highlighting the need to eliminate the MoD's non-core activities. (Note: On February 6, Yushchenko signed a decree requiring a commission to be established to review by March 20 the MoD's use of budget funds, military property, and real estate.) Yekhanurov said he would work with the State Property Fund and Ministry of Finance to determine what property and assets should be transferred to other ministries and that he was concerned about generals selling property. (Note: Hrytsenko started reforming this area. He told the Ambassador that he took away the generals' authority to sell property by transferring it from the General Staff to the civilian MoD staff.) Yekhanurov said he had invalidated 48 suspicious directives in his first week of which Hrytsenko was not aware. Sushko suggested that Hrytsenko had been Yushchenko's



primary defense adviser and, with Hrytsenko's departure from office, it was unclear who would be qualified to fill the role. He also repeated a rumor that one reason for Hrytsenko's departure was his refusal to transfer a prime piece of MoD real estate gratis to a developer, but rather to insist on selling it at commercial rates in a transparent way.

¶20. (C - REL NATO) Yekhanurov might also be pressured by Yushchenko and the Presidential Secretariat in more insidious ways, particularly regarding who benefits from sales and transfers of military assets. We have heard that Presidential Chief of Staff Viktor Baloha was pushing Ivashchenko to become First Deputy Defense Minister and that Ivashchenko is loyal first to Baloha. There are also allegations that Yushchenko himself hopes to profit from sales of military real estate to finance his presidential campaign. Although Yekhanurov has a relatively good reputation for honesty, such maneuvering would not have been possible at all with Hrytsenko as Minister of Defense.

¶21. (SBU) The final factor potentially complicating Yekhanurov's life will be his relationship to Hrytsenko, who, as chairman of Parliament's National Security and Defense Committee, exercises an oversight role over MoD budget and activity. Hrytsenko, who should be basically supportive, has not been reticent about expressing his critical views.

¶22. (U) Visit Embassy Kyiv's classified website:  
[www.state.sgov.gov/p/eur/kiev](http://www.state.sgov.gov/p/eur/kiev).  
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